

FOWLERVILLE COMMUNITY SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2005

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Fowlerville Community Schools
Fowlerville, Michigan

July 25, 2005

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fowlerville Community Schools, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fowlerville Community Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Fowlerville Community Schools as of June 30, 2005 and the respective changes in financial position, thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2005 of Fowlerville Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Education
Fowlerville Community Schools

July 25, 2005

The management's discussion and analysis and budgetary comparison information on pages vi and xii and 26, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fowlerville Community Schools' basic financial statements. The additional information on pages 27 through 48 is presented for purposes of additional analysis and are not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mayer, Costenaro & Ellis, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Fowlerville Community Schools' (FCS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

The District's general fund financial situation remained stable from the 2004 fiscal year to 2005.

Total District revenues exceeded \$29.0 million dollars with spending around \$29.4 million dollars; total District expenses exceeded revenues by approximately \$445,000. The District continues to participate in the school bond loan fund, borrowing for debt repayment while keeping the debt millage at 8.34 mills.

The decrease in the fund balance is primarily due to the increase in general fund expenditures. The student blended count for 2004-2005 was 3,173.

The District's general fund is funded primarily with a \$6,700 per pupil State of Michigan Foundation allowance. 85% of the general fund revenue comes from the State sources.

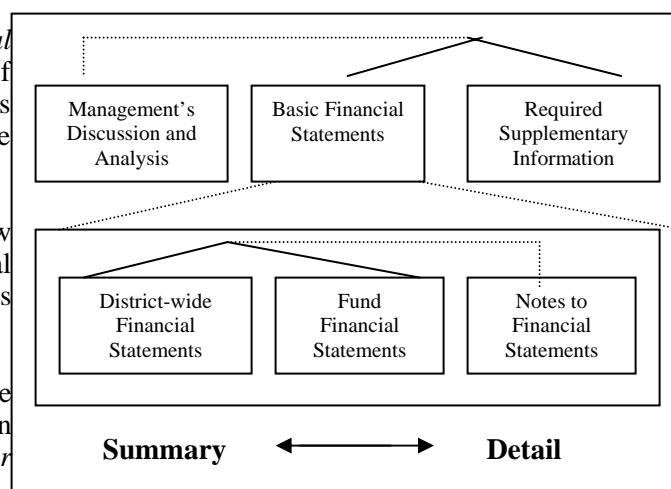
During the 2004-2005 fiscal year the District repaid \$3.3 million of principal from its long-term debt but new borrowings were \$52.7 million. The District's general fund balance decreased \$240,616. At June 30, 2005, the fund balance of the general fund was \$1,560,393.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee* or *agent* for the benefit of others.

Figure A-1
Organization of
Fowlerville Community Schools' Annual
Financial Report



The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

<p style="text-align: center;">Figure A-2 Major Features of District-Wide and Fund Financial Statements</p>			
Scope	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Fowlerville's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include *all* of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- *Governmental activities* – Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets – The District’s combined net assets (deficit) was more on June 30, 2005 than the year before, increasing from (\$11,524,638) to (\$11,969,791). One of the major contributors to this is the District’s participation in the school bond loan fund (SBLF) which allows the District’s debt millage to remain at a lower level (8.34 mills) but requires borrowing from the SBLF to meet principal and interest payments. In 2004-2005 the District borrowed \$2,650,529 from this fund. Interest on the cumulative borrowings was \$81,300 for the year ended June 30, 2005. Once the District’s total property valuation grows to sufficient levels, this money will be repaid.

Table A-3		
Fowlerville Community Schools' Net Assets		
	2005	2004
Current or other assets	\$ 56,458,063	\$ 7,434,545
Capital assets and other assets	34,896,752	32,724,243
Total assets	91,354,815	40,158,788
Long-term debt outstanding	91,569,237	43,058,505
Other liabilities	11,755,369	8,624,921
Total liabilities	103,324,606	51,683,426
Net assets (deficit):		
Invested in capital assets, net of related debt	(12,328,164)	(12,212,413)
Restricted	101,865	101,638
Unrestricted	256,508	586,137
Total net assets (deficit)	\$ (11,969,791)	\$ (11,524,638)

Table A-4		
Changes in Fowlerville Community Schools' Net Assets		
	2005	2004
Revenues:		
Program revenues:		
Charges for services	\$ 1,542,273	\$ 1,486,870
Federal and state categorical grants	1,100,695	1,038,726
General revenues:		
Property taxes	5,557,882	4,841,515
State aid - unrestricted	19,561,692	19,372,829
Other	1,213,754	439,725
Total revenues	28,976,296	27,179,665
Expenses:		
Instruction	14,094,666	13,647,054
Support services	8,208,859	7,944,828
Community services	727,530	581,489
Food services	1,141,660	1,118,727
Athletics	435,909	448,179
Interest on long-term debt	3,820,166	1,954,958
Unallocated depreciation	992,659	992,659
Total expenses	29,421,449	26,687,894
Increase (decrease) in net assets	\$ (445,153)	\$ 491,771

District Governmental Activities

The District's financial condition has become relatively stable considering Michigan's uncertain economy.

- In fiscal year 1999 – 2000, student blended count was 3,103 and in five years has grown to 3,173 or an increase of 70 students. Fowlerville Schools is the only district in the area that does not have a School of Choice. However, the District has over 1,500 homes either being built or in the planning stages.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds:

Fund balance

General fund	\$ 1,560,393
Capital projects funds	\$ 47,159,680
All other funds	\$ 776,292

This is a combined fund balance of \$49,496,365 compared to \$2,204,611 in 2004. The 2005 fund balance increased by \$47,291,754 mainly due to the sale of 2004 bonds.

General Fund and Budget Highlights

During the 2004 - 2005 fiscal year, the original District budget was amended to reflect changes which affected the District.

The initial amendment took place in the fall, once the student count and staff changes had been determined.

Spring amendments took place to more accurately reflect payouts being made to District employees who were retiring, as well as the final State Aid payments to school districts. There was no pro-ration of the \$6,700 Foundation Allowance during the 2004-2005 school year.

The final amended budget showed an operating loss for 2004-2005.

Overall the difference between the final general fund amended budget and end of the year figures amounted to approximately 1%. We had a decrease in revenues from the final June 2005 Board adopted budget by \$53,748. Expenditures were \$146,276 less than the final approved budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Table A-5 Fowlerville Community Schools' Capital Assets				
	Cost	Accumulated Depreciation	2005 Net Book Value	2004 Net Book Value
Land	\$ 960,000	\$	\$ 960,000	\$ 960,000
Construction in progress	2,791,900		2,791,900	
Land improvements	1,006,955	471,013	535,942	582,540
Buildings and additions	40,785,984	12,349,183	28,436,801	29,243,246
Machinery and equipment	2,919,599	1,936,390	983,209	1,208,883
Transportation equipment	2,063,085	1,445,549	617,536	628,152
Total	\$ 50,527,523	\$ 16,202,135	\$ 34,325,388	\$ 32,622,821

Capital asset purchases throughout fiscal 2005 included three school busses and maintenance equipment. In 2004, the construction began on the school buildings and will continue during the 2006 fiscal year.

The 2006 fiscal year budget anticipates dramatic increases in capital expenditures with the continuation of the District's bond construction plans.

Long-term Debt

At year end the District had over \$95.7 million in general obligation bonds and other long-term debt outstanding. This was an increase of \$49.5 from the amount outstanding at the end of fiscal 2004. The District repaid \$3.3 million in principal during fiscal 2005, but also issued \$52.7 million in new borrowings including the 2004 bond issuance, the School Bond Loan Fund and a note payable for the purchase of school busses.

Table A-6 Fowlerville Community Schools Outstanding Long-Term Debt		
	2005	2004
General obligation debts (financed with property taxes)	\$ 89,270,270	\$ 42,450,368
School bond loan fund	4,680,223	1,948,394
Other	1,742,857	1,829,476
Total	\$ 95,693,350	\$ 46,228,238

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of three existing circumstances that could significantly affect its financial health in the future:

- The 2005-2006 State Aid package has not been passed as of August 31st. The continued job loss and high unemployment forecasts a precarious future for K-12 school funding..
- The end of fiscal year 2006 will mark the expiration of a two-year teachers' agreement. The contracts will be negotiated between the Board of Education and the bargaining units in the summer of 2006.
- In 2005-2006 we anticipate an increase of students of at least a 25 FTE blended count. The District anticipates enrollment in 2005-2006 will increase due to new residential construction. The State's weak economy and fuel costs can have a great effect on District move-ins or students leaving because of their parent's job status.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Fowlerville Community Schools, 735 N. Grand, Fowlerville, MI 48836-0769.

FOWLERVILLE COMMUNITY SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2005

	ASSETS	<u>Governmental activities</u>
CURRENT ASSETS:		
Cash		\$ 9,327,748
Investments		42,892,336
Receivables:		
Accounts receivable		26,443
Other governmental units		3,780,684
Taxes		4,869
Due from student funds		5,269
Interest		348,630
Inventories		26,716
Prepaid expenditures		<u>45,368</u>
TOTAL CURRENT ASSETS		<u>56,458,063</u>
NONCURRENT ASSETS:		
Deferred charges, net of amortization		571,364
Capital assets		50,527,523
Less accumulated depreciation		<u>(16,202,135)</u>
TOTAL NONCURRENT ASSETS		<u>34,896,752</u>
TOTAL ASSETS		<u><u>\$ 91,354,815</u></u>

See notes to financial statements.

	Governmental activities
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 1,051,436
Retainage payable	55,941
Accrued interest	717,491
Note payable	3,300,000
Accrued salaries and related items	2,442,213
Deferred revenue	64,175
Current portion of long-term obligations	3,995,767
Current portion of compensated absences and severance benefits	128,346
TOTAL CURRENT LIABILITIES	11,755,369
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	90,388,829
Compensated absences and severance benefits	1,180,408
TOTAL NONCURRENT LIABILITIES	91,569,237
TOTAL LIABILITIES	103,324,606
NET ASSETS (DEFICIT):	
Invested in capital assets, net of related debt	(12,328,164)
Restricted for debt service	101,865
Unrestricted	256,508
TOTAL NET DEFICIT	(11,969,791)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 91,354,815

FOWLERVILLE COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 14,094,666	\$	\$ 591,581	\$ (13,503,085)
Support services	8,208,859		184,385	(8,024,474)
Community services	727,530	665,069		(62,461)
Food services	1,141,660	753,370	324,729	(63,561)
Athletics	435,909	123,834		(312,075)
Interest on long-term debt	3,820,166			(3,820,166)
Unallocated depreciation	992,659			(992,659)
Total governmental activities	<u>\$ 29,421,449</u>	<u>\$ 1,542,273</u>	<u>\$ 1,100,695</u>	<u>(26,778,481)</u>
General revenues:				
Property taxes, levied for general purposes				1,743,595
Property taxes, levied for debt service				3,814,287
Net investment earnings				836,255
State sources				19,561,692
Other				<u>377,499</u>
Total general revenues				<u>26,333,328</u>
Change in net assets				(445,153)
Net deficit, beginning of year				<u>(11,524,638)</u>
Net deficit, end of year				<u>\$ (11,969,791)</u>

FOWLerville COMMUNITY SChOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General fund	Capital projects fund	Other nonmajor governmental funds	Total governmental funds
ASSETS				
ASSETS:				
Cash	\$ 3,636,386	\$ 4,906,549	\$ 784,813	\$ 9,327,748
Investments		42,892,336		42,892,336
Receivables:				
Accounts receivable	19,827		6,616	26,443
Other governmental units	3,780,684			3,780,684
Due from other funds	61,683		27,599	89,282
Due from student funds	5,269			5,269
Taxes	4,869			4,869
Interest		348,630		348,630
Inventories	6,836		19,880	26,716
Prepaid expenditures	39,998		5,370	45,368
TOTAL ASSETS	\$ 7,555,552	\$ 48,147,515	\$ 844,278	\$ 56,547,345

LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 119,542	\$ 931,894	\$	\$ 1,051,436
Retainage payable		55,941		55,941
Accrued interest	43,064			43,064
State aid anticipation note	3,300,000			3,300,000
Accrued salaries and related items	2,442,213			2,442,213
Deferred revenue	62,741		6,303	69,044
Due to other funds	27,599		61,683	89,282
TOTAL LIABILITES	5,995,159	987,835	67,986	7,050,980

	General fund	Capital projects fund	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES:				
Reserved for:				
Debt service	\$	\$	\$ 776,292	\$ 776,292
Inventories and prepaid expenditures	46,834			46,834
Total reserved	46,834		776,292	823,126
Designated for subsequent year expenditures	990,087	47,159,680		48,149,767
Unreserved and undesignated	523,472			523,472
TOTAL FUND BALANCES	1,560,393	47,159,680	776,292	49,496,365
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,555,552	\$ 48,147,515	\$ 844,278	\$ 56,547,345

Total Governmental Fund Balances \$ 49,496,365

Amounts reported for governmental activities in the statement of net assets are different because:			
Value of deferred charges for bond issuance costs		\$ 613,808	
Accumulated amortization		(42,444)	571,364
Capital assets used in governmental activities are not financial resources and are not reported in the funds			
The cost of the capital assets is		50,527,523	
Accumulated depreciation is		(16,202,135)	34,325,388
Long-term liabilities are not due and payable in the current period and are not reported in the funds			
Bonds payable			(93,717,770)
Bond premium			(666,826)
Compensated absences and severance benefits			(1,308,754)
Accrued interest on long-term debt is not included as a liability in government funds, it is recorded when paid			(674,427)
Balance of taxes receivable at 6/30/05 less allowance for doubtful accounts			4,869
Net assets (deficit) of governmental activities			\$ (11,969,791)

FOWLERVILLE COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	General fund	Capital projects fund	Other nonmajor governmental funds	Total governmental funds
REVENUES:				
Local sources:				
Property taxes	\$ 1,810,590	\$	\$ 3,814,287	\$ 5,624,877
Community services, tuition, food sales and athletic admissions	665,069		877,204	1,542,273
Investment income	49,497	765,801	20,957	836,255
Other	73,221			73,221
Total local revenues	2,598,377	765,801	4,712,448	8,076,626
State sources	19,838,262		54,987	19,893,249
Federal sources	499,396		269,742	769,138
Incoming transfers and other transactions	304,278			304,278
Total revenues	23,240,313	765,801	5,037,177	29,043,291
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	11,049,825			11,049,825
Added needs	2,797,905			2,797,905
Adult and community education	231,646			231,646
Total instruction	14,079,376			14,079,376
Support services:				
Pupil	877,988			877,988
Instructional staff	672,171			672,171
General administration	484,421			484,421
School administration	1,432,845			1,432,845
Business	277,055			277,055
Operation and maintenance	2,209,865			2,209,865
EXPENDITURES:				
Current:				
Support services:				
Transportation	\$ 1,628,791	\$	\$	\$ 1,628,791
Central	481,411			481,411
Total support services	8,064,547			8,064,547
Athletics			413,204	413,204
Community services	727,530			727,530
Food service			1,121,794	1,121,794
Capital outlay		2,791,900		2,791,900
Outgoing transfers and other transactions	356,152			356,152
Debt service:				
Principal retirement			2,275,617	2,275,617
Interest and fiscal charges			3,946,835	3,946,835
Bond issuance costs		506,047		506,047
Total expenditures	23,227,605	3,297,947	7,757,450	33,776,955
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	12,708	(2,532,146)	(2,720,273)	(4,733,664)
OTHER FINANCING SOURCES (USES):				
Proceeds from school bond loan fund			2,650,529	2,650,529
Proceeds from bond and notes payable	184,230	49,025,000	4,880	49,214,110
Bond premium		666,826		666,826
Operating transfers in			437,554	437,554
Operating transfers out	(437,554)			(437,554)
Total other financing sources (uses)	(253,324)	49,691,826	3,092,963	52,531,465
NET CHANGE IN FUND BALANCES	(240,616)	47,159,680	372,690	47,291,754
FUND BALANCES:				
Beginning of year	1,801,009		403,602	2,204,611
End of year	\$ 1,560,393	\$ 47,159,680	\$ 776,292	\$ 49,496,365

See notes to financial statements.

FOWLerville COMMUNITY SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Net change in fund balances total governmental funds \$ 47,291,754

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. However, in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(1,281,800)
Capital outlay	2,993,659
Loss on disposal of capital assets	(9,292)

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable beginning of the year	297,118
Accrued interest payable end of the year	(674,427)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences in the treatment of long-term debt and related items is as follows:

Proceeds of debt	(51,864,639)
Payments on debt	2,467,098
Premium on debt	(666,826)
Bond issuance costs	506,048
Long-term interest on school bond loan fund	(81,300)
Long-term accretion on capital appreciation bond	(68,349)
Payment of interest on capital appreciation bond	629,384
Deferred amount on bond refunding	(7,049)
Amortization expense	(36,106)
Amortization premium	42,319

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue beginning of the year - governmental funds	(71,864)
Deferred revenue end of the year - governmental funds	4,869

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure due in the governmental funds:

Accrued compensated absences and accumulated severance benefit beginning of the year	1,393,004
Accrued compensated absences and accumulated severance benefit end of the year	(1,308,754)

Change in net assets of governmental activities \$ (445,153)

**FOWLERVILLE COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005**

	<u>Private purpose</u>	<u>Agency</u>
ASSETS		
Cash	\$ 110,417	\$ 307,773
	<u>110,417</u>	<u>307,773</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Due to student groups	\$	\$ 302,504
Due to other funds	<u>5,269</u>	<u>5,269</u>
Total liabilities		307,773
Fund balances:		
Reserved for scholarships	<u>110,417</u>	<u>110,417</u>
	<u>\$ 110,417</u>	<u>\$ 307,773</u>

**FOWLERVILLE COMMUNITY SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2005**

	<u>Private purpose</u>
ADDITIONS:	
Interest earnings	\$ 2,172
DEDUCTIONS:	
Scholarships awarded	<u>6,000</u>
CHANGE IN NET ASSETS	(3,828)
NET ASSETS:	
Beginning of year	<u>114,245</u>
End of year	<u><u>\$ 110,417</u></u>

FOWLerville COMMUNITY SCHOOLS NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Fowlerville Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Fowlerville Community Schools (the "District") is governed by the Fowlerville Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Continued)

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *capital project fund* accounts for the revenue and expenditures that are related to the net proceeds from the issuance of the general obligation bonds that are going to be used to erect, furnish and equip additions to and remodel, re-equip and refurnish school district buildings, acquire and install educational technology improvements, construct and equip a new maintenance building, and develop and improve sites, playgrounds, and athletic fields and facilities.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Concluded)

The Capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

The following is a summary of the revenue and expenditures for the 2004 capital projects bond activity since inspection:

	<u>2004 Bond</u>
Revenues and other financing sources (uses)	<u>\$ 49,951,580</u>
Expenditures	<u>\$ 2,791,900</u>

The above revenue amount includes net bond proceeds of \$49,185,778.

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *private purpose trust fund* is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where both the principal and interest may be spent. These funds are not reported on the District financial statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005, the foundation allowance was based on pupil membership counts taken in February and September of 2004.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2004 to August 2005. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

FOWLerville COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

2. Property Taxes (Concluded)

For the year ended June 30, 2005, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General Fund - Non-homestead	18.0000
Debt service fund - Homestead and non-homestead	8.3400

3. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the special revenue funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

5. Capital Assets (Concluded)

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 - 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated Absences

The District's policies generally provide for granting vacation or sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method, over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any are noted in the required supplementary information section.
4. The Deputy Superintendent of Business is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2005. The District does not consider these amendments to be significant.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK

As of June 30, 2005, the District had the following investments:

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
U.S. Government Agencies	\$ 42,892,335	1.05	AAA	100%

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2005, the District did not have investments in commercial paper and corporate bonds.

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. 100% of the District's investments are in Fixed Income Government Securities.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2005, \$9,176,698 of the District's bank balance of \$9,376,698 was exposed to custodial credit risk because it was uninsured and uncollateralized. The bank balance includes approximately \$8.3 million of certificates of deposits and savings accounts. The carrying amount is \$9,327,748.

Fiduciary fund balances are not included in the above balances. As of June 30, 2005, \$236,294 of the Fiduciary fund's bank balance of \$426,218 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Concluded)

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Assets not being depreciated:				
Land	\$ 960,000	\$	\$	\$ 960,000
Construction in progress		2,791,900		2,791,900
Total assets not being depreciated	960,000	2,791,900		3,751,900
Other capital assets:				
Land improvements	1,006,955			1,006,955
Buildings and additions	40,785,984			40,785,984
Machinery and equipment	2,925,985	17,529	23,915	2,919,599
Transportation equipment	2,036,194	184,230	157,339	2,063,085
Subtotal	46,755,118	201,759	181,254	46,775,623
Accumulated depreciation:				
Land improvements	424,415	46,598		471,013
Buildings and additions	11,542,738	806,445		12,349,183
Machinery and equipment	1,717,102	233,911	14,623	1,936,390
Transportation equipment	1,408,042	194,846	157,339	1,445,549
Total accumulated depreciation	15,092,297	1,281,800	171,962	16,202,135
Net capital assets being depreciated	31,662,821	(1,080,041)	9,292	30,573,488
Net governmental capital assets	\$ 32,622,821	\$ 1,711,859	\$ 9,292	\$ 34,325,388

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS (Concluded)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

Athletics	\$ 22,705
Food service	19,867
Support services	246,569
Unallocated	<u>992,659</u>
Total governmental activities	<u><u>\$ 1,281,800</u></u>

NOTE 5 - RECEIVABLES

Receivables at June 30, 2005 consist of the following:

	<u>General fund</u>
Other governmental units:	
State aid	\$ 3,598,073
Federal revenue	158,981
Other	<u>23,630</u>
	<u><u>\$ 3,780,684</u></u>

Amounts due from other governmental units include amounts due from federal, state and local sources for various projects and programs.

No allowance for doubtful accounts is considered necessary.

NOTE 6 - NOTE PAYABLE

At June 30, 2005, the District has a note payable outstanding of \$3,300,000. The note has an interest rate of 1.57% and matures August 19, 2005. The note is secured by the full faith and credit of the District as well as pledged state aid. Subsequent to year-end, the District set aside an additional amount to pay off the note principal and related interest expense. The District has approved a note payable of \$3,200,000 for the fiscal year ending June 30, 2006.

Balance June 30, 2004	Additions	Payments	Balance June 30, 2005
<u>\$ 3,000,000</u>	<u>\$ 3,300,000</u>	<u>\$ 3,000,000</u>	<u>\$ 3,300,000</u>

FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of governmental long-term obligations for the District for the year ended June 30, 2005:

	Accumulated compensated absences	Accumulated severance benefits	Bonds and other debt	Total
Balance, July 1, 2004	\$ 178,688	\$ 1,214,316	\$ 44,835,234	\$ 46,228,238
Additions	75,124		52,676,231	52,751,355
Deletions		(159,374)	(3,126,869)	(3,286,243)
Balance, June 30, 2005	253,812	1,054,942	94,384,596	95,693,350
Less current portion	33,458	94,888	3,995,767	4,124,113
Total due after one year	<u>\$ 220,354</u>	<u>\$ 960,054</u>	<u>\$ 90,388,829</u>	<u>\$ 91,569,237</u>

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT (Continued)

Bonds payable at June 30, 2005 is comprised of the following issues:

1995 serial bonds due in annual installments of \$85,000 to \$95,000 through May 1, 2010 with interest from 5.10% to 5.90%	\$ 455,000
1996 serial bonds due in annual installments of \$555,000 to \$625,000 through May 1, 2007 with interest from 4.65% to 6.50%	1,180,000
1999 refunding serial bonds due in annual installments of \$90,000 to \$910,000 through May 1, 2026 with interest from 3.10% to 4.75%	16,510,000
2001 refunding serial bonds due in annual installments of \$485,000 to \$525,000 through May 1, 2009 with interest from 4.00% to 4.13%	2,020,000
2003 refunding serial bonds due in annual installments of \$340,000 to \$420,000 through May 1, 2020 with interest from 2.00% to 4.35%	5,780,000
2003 refunding serial bonds due in annual installments of \$1,342,000 to \$1,728,000 through May 1, 2014 with interest at 3.318%	13,732,000
2004 serial bonds due in annual installments of \$875,000 to \$2,750,000 through May 1, 2034 with interest from 2.25% to 5.00%	49,025,000
Plus: premium on bond refunding	674,000
Less: deferred loss on bond refunding	<u>(105,730)</u>
Total general obligation debt	89,270,270
Limited obligation (Durant) bonds due in annual installments of \$11,086 to \$55,350 through May 2013 with an interest rate of 4.76%. Certain State Aid payments have been pledged as security.	<u>146,315</u>
Total bonded debt	89,416,585

**FOWLerville COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT (Continued)

Borrowings from the State of Michigan under the School Bond Loan Program, including interest	\$ 4,680,223
Installment notes payable due in annual installments of \$47,702 to \$51,292 through April 1, 2008 with an interest rate of 3.6951%	148,459
Installment notes payable due in annual installments of \$44,979 to \$47,922 through April 21, 2008 with an interest rate of 3.22%	139,329
Obligation under contract for compensated absences	253,812
Obligation under contract for severance benefits	<u>1,054,942</u>
Total general long-term debt	<u><u>\$ 95,693,350</u></u>

The Durant bonds, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

On August 17, 2004, Fowlerville Community Schools issued a general obligation bond of \$49,025,000 with an interest rate from 2.25% to 5.25% for building and site. The serial bonds mature on May 1, 2034. The general obligation bonds were issued at a premium of \$666,823, the net proceeds were \$49,691,823. The net proceeds from the issuance of the general obligation bonds are going to be used to erect, furnish and equip additions to and remodel, reequip and refurnish school district buildings, acquire and install educational technology improvements, construct and equip a new maintenance building, and develop and improve sites, playgrounds, and athletic fields and facilities.

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account, assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2005, \$23,255,000 of bonds outstanding are considered defeased.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize debt outstanding as of June 30, 2005, including interest payments of \$56,894,163 are as follows:

Year ending June 30,	Principal	Interest	Amounts payable
2006	\$ 3,995,767	\$ 3,933,630	\$ 7,929,397
2007	4,142,504	3,791,972	7,934,476
2008	4,267,380	3,640,048	7,907,428
2009	4,314,746	3,491,772	7,806,518
2010	3,963,352	3,336,156	7,299,508
2011-2015	18,902,354	14,418,878	33,321,232
2016-2020	13,565,000	10,959,055	24,524,055
2021-2025	13,525,000	7,636,676	21,161,676
2026-2030	12,060,000	4,363,476	16,423,476
2031-2034	10,400,000	1,322,500	11,722,500
	89,136,103	56,894,163	146,030,266
Premium on bond refunding	674,000		674,000
Deferred loss on bond refunding	(105,730)		(105,730)
Due to school bond loan fund	4,680,223		4,680,223
Accumulated compensated absences	253,812		253,812
Accumulated severance benefits	1,054,942		1,054,942
	<u>\$ 95,693,350</u>	<u>\$ 56,894,163</u>	<u>\$ 152,587,513</u>

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2005 are as follows:

Receivable Fund		Payable Fund	
General Fund	\$ 61,683	Food Service Fund	\$ 61,683
Food Service Fund	<u>27,599</u>	General Fund	<u>27,599</u>
	<u>\$ 89,282</u>		<u>\$ 89,282</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

FOWLerville COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2005, was 12.99% of payroll through September 30, 2004 and increased to 14.87% on October 1, 2004. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2005, 2004 and 2003 were \$2,049,000, \$1,791,000 and \$1,828,000, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits

Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2005 or any of the prior three years.

NOTE 11 - TRANSFERS

The general fund transferred \$289,370 to the athletics fund, \$37,479 to the food service fund and \$110,705 to the debt service fund. The transfer to the athletic fund and the food service fund were to subsidize operations. The transfer to the debt service fund was to pay the debt service principal and interest payments as it becomes due.

NOTE 12 - OPERATING LEASES

The District leases copiers under an operating lease agreement expiring June 30, 2009. Minimum rental commitments at June 30, 2005 for all non-cancelable operating leases are as follows:

<u>Year ending</u>	
2006	\$ 34,930
2007	34,930
2008	34,930
2009	<u>34,930</u>
	<u><u>\$ 139,720</u></u>

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District. The District has approximately \$47,000,000 committed to complete its capital projects.

REQUIRED SUPPLEMENTARY INFORMATION

**FOWLerville COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2005**

[illegible]

ADDITIONAL INFORMATION

**FOWLERVILLE COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2005**

	<u>Special revenue</u>	<u>Debt service</u>	<u>Total nonmajor governmental funds</u>
ASSETS			
ASSETS:			
Cash	\$ 8,521	\$ 776,292	\$ 784,813
Receivables:			
Accounts receivable	6,616		6,616
Due from other funds	27,599		27,599
Inventories	19,880		19,880
Prepaid expenditures	5,370		5,370
TOTAL ASSETS	<u><u>\$ 67,986</u></u>	<u><u>\$ 776,292</u></u>	<u><u>\$ 844,278</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Deferred revenue	\$ 6,303	\$	\$ 6,303
Due to other funds	61,683		61,683
TOTAL LIABILITIES	<u>67,986</u>		<u>67,986</u>
FUND BALANCES:			
Reserved for:			
Debt service		776,292	776,292
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 67,986</u></u>	<u><u>\$ 776,292</u></u>	<u><u>\$ 844,278</u></u>

**FOWLERVILLE COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005**

	<u>Special revenue</u>	<u>Debt service</u>	<u>Total nonmajor governmental funds</u>
REVENUES:			
Local sources:			
Property taxes	\$	\$ 3,814,287	\$ 3,814,287
Food sales and athletic admissions	877,204		877,204
Investment income	1,370	19,587	20,957
Total local sources	878,574	3,833,874	4,712,448
State sources	54,987		54,987
Federal sources	269,742		269,742
Total revenues	1,203,303	3,833,874	5,037,177
EXPENDITURES:			
Athletics	413,204		413,204
Food service	1,121,794		1,121,794
Capital outlay			
Debt service:			
Principal retirement		2,275,617	2,275,617
Interest and fiscal charges		3,946,835	3,946,835
Total expenditures	1,534,998	6,222,452	7,757,450
DEFICIENCY OF REVENUES OVER EXPENDITURES	(331,695)	(2,388,578)	(2,720,273)
OTHER FINANCING SOURCES:			
Proceeds from school bond loan fund and bonds		2,655,409	2,655,409
Operating transfers in	326,849	110,705	437,554
Total other financing sources	326,849	2,766,114	3,092,963
NET CHANGE IN FUND BALANCES	(4,846)	377,536	372,690
FUND BALANCES:			
Beginning of year	4,846	398,756	403,602
End of year	\$	\$ 776,292	\$ 776,292

**FOWLERVILLE COMMUNITY SCHOOLS
SPECIAL REVENUE FUND
BALANCE SHEET
SCHOOL LUNCH FUND
JUNE 30, 2005
(with comparative totals for June 30, 2004)**

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash and cash equivalents	\$ 8,521	\$ 83,316
Receivables:		
Accounts receivable	6,616	10,115
Due from other funds	27,599	
Inventory - food service	19,880	19,880
Prepaid expenditures	<u>5,370</u>	<u>2,250</u>
	<u><u>\$ 67,986</u></u>	<u><u>\$ 115,561</u></u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Due to general fund	\$ 61,683	\$ 103,321
Deferred revenue	<u>6,303</u>	<u>7,394</u>
Total liabilities	<u>67,986</u>	<u>110,715</u>
Fund balance:		
Reserved for inventory and prepaid expenditures		22,130
Unreserved and undesignated		<u>(17,284)</u>
Total fund balance		<u>4,846</u>
Total liabilities and fund balance	<u><u>\$ 67,986</u></u>	<u><u>\$ 115,561</u></u>

FOWLERVILLE COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2005
(with comparative totals for the year ended June 30, 2004)

	School lunch fund	Athletics fund	Total	
			2005	2004
REVENUES:				
Sale of lunches and milk	\$ 753,370	\$	\$ 753,370	\$ 774,450
Federal aid	269,742		269,742	244,718
State aid	54,987		54,987	52,592
Incoming transfers and other transactions				
Interest and miscellaneous	1,370		1,370	550
Athletic events		123,834	123,834	138,698
Total revenues	1,079,469	123,834	1,203,303	1,211,008
EXPENDITURES:				
Salaries and wages	352,966	242,038	595,004	581,027
Employee benefits	217,284	78,848	296,132	264,792
Supplies and other expenses	121,233	92,318	213,551	220,010
Food costs	417,270		417,270	432,529
Capital outlay	5,018		5,018	13,789
Indirect costs	8,023		8,023	8,437
Total expenditures	1,121,794	413,204	1,534,998	1,520,584
DEFICIENCY OF REVENUES OVER EXPENDITURES	(42,325)	(289,370)	(331,695)	(309,576)
OTHER FINANCING SOURCES:				
Operating transfer in from general fund	37,479	289,370	326,849	283,026
NET CHANGE IN FUND BALANCES	(4,846)		(4,846)	(26,550)
FUND BALANCES, beginning of year	4,846		4,846	31,396
FUND BALANCES, end of year	\$	\$	\$	\$ 4,846

**FOWLERVILLE COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2005
(with comparative totals for June 30, 2004)**

	Debt service funds								Totals	
	1991 refinancing	1995	1996	1999	2001	2003	2003 SBLF	2004	2005	2004
ASSETS										
Cash	\$ 114,803	\$ 11	\$76,665	\$273,895	\$ 76,020	\$ 77,197	\$157,199	\$ 502	\$776,292	\$396,268
Taxes receivable										2,488
	<u>\$ 114,803</u>	<u>\$ 11</u>	<u>\$76,665</u>	<u>\$273,895</u>	<u>\$ 76,020</u>	<u>\$ 77,197</u>	<u>\$157,199</u>	<u>\$ 502</u>	<u>\$776,292</u>	<u>\$398,756</u>
FUND BALANCES										
Fund balances, reserved for debt service	<u>\$ 114,803</u>	<u>\$ 11</u>	<u>\$76,665</u>	<u>\$273,895</u>	<u>\$ 76,020</u>	<u>\$ 77,197</u>	<u>\$157,199</u>	<u>\$ 502</u>	<u>\$776,292</u>	<u>\$398,756</u>

FOWLerville COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2005
(with comparative totals for the year ended June 30, 2004)

	Debt service funds								Totals	
	1991 refinancing	1995	1996	1999	2001	2003	2003 SBLF	2004	2005	2004
REVENUES:										
Local sources:										
Current taxes	\$ 840,758	\$	\$ 563,776	\$ 737,327	\$ 557,651	\$ 565,309	\$ 549,466	\$	\$ 3,814,287	\$ 3,127,768
Interest on investments	4,421	5	2,423	4,680	2,378	2,441	3,237	2	19,587	5,921
Total revenues	845,179	5	566,199	742,007	560,029	567,750	552,703	2	3,833,874	3,133,689
EXPENDITURES:										
Redemption of bonds	405,617	80,000	550,000	90,000	545,000	435,000	170,000		2,275,617	14,077,264
Interest on bonds	629,384	30,280	112,450	754,888	103,456	215,720	461,268	1,637,083	3,944,529	4,624,552
Other debt retirement expenses	229	425	443	455	381	373			2,306	2,320
Total expenditures	1,035,230	110,705	662,893	845,343	648,837	651,093	631,268	1,637,083	6,222,452	18,704,136
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(190,051)	(110,700)	(96,694)	(103,336)	(88,808)	(83,343)	(78,565)	(1,637,081)	(2,388,578)	(15,570,447)
OTHER FINANCING SOURCES:										
Proceeds from school bond loan fund	229,620		132,556	172,915	128,589	118,633	235,513	1,637,583	2,655,409	1,453,524
Proceeds from bond refunding										14,080,640
Operating transfers		110,705							110,705	109,680
Total other financing sources	229,620	110,705	132,556	172,915	128,589	118,633	235,513	1,637,583	2,766,114	15,643,844
NET CHANGE IN FUND BALANCES	39,569	5	35,862	69,579	39,781	35,290	156,948	502	377,536	73,397
FUND BALANCES , beginning of year	75,234	6	40,803	204,316	36,239	41,907	251		398,756	325,359
FUND BALANCES , end of year	\$ 114,803	\$ 11	\$ 76,665	\$ 273,895	\$ 76,020	\$ 77,197	\$ 157,199	\$ 502	\$ 776,292	\$ 398,756

**FOWLERVILLE COMMUNITY SCHOOLS
FIDUCIARY FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2005
(with comparative totals for June 30, 2004)**

	Private purpose	Agency funds	Totals	
			2005	2004
ASSETS				
Cash	\$ 110,417	\$ 307,773	\$ 418,190	\$ 381,275
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to student groups	\$	\$ 302,504	\$ 302,504	\$ 267,030
Due to other funds		5,269	5,269	
Total liabilities		307,773	307,773	267,030
Fund balances:				
Reserved for scholarships	110,417		110,417	114,245
	\$ 110,417	\$ 307,773	\$ 418,190	\$ 381,275

FOWLERVILLE COMMUNITY SCHOOLS
AGENCY FUNDS
(INTERNAL FUNDS)
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
LIABILITIES BY ACTIVITY
YEAR ENDED JUNE 30, 2005

	Balance 7/1/2004	Additions	Deductions	Balance 6/30/2005
Allshouse Scholarship	\$ 22,845	\$ 1,756	\$ (500)	\$ 24,101
Athletic Baseball	1,465	9,949	(9,909)	1,505
Athletic Boys Basketball	501	840	(1,338)	3
Athletic Cross Country		248		248
Athletic Girls Basketball	447	248	(51)	644
Athletic Scholarship/Bierstetel	272	40		312
Ath. soccer internal	25	130	(130)	25
Ath-softball internal	101	21	(121)	1
Athletic resale	2,339	6,011	(4,003)	4,347
Beagle Scholarship	1,595	47	(500)	1,142
Board Scholarship	1,237	500	(500)	1,237
Brigham Scholarship		500	(500)	
Bus Employees		1,065	(1,065)	
Cash over and under		159		159
Central Office Remembrance Fund	664	1,359	(745)	1,278
Cheerleaders	9	10,823	(10,809)	23
Class of 1988		875	(875)	
Class of 2003	693		(693)	
Class of 2004	701	1,088	(1,789)	
Class of 2005	14,818	1,599	(13,671)	2,746
Class of 2006	1,067	13,693	(13,043)	1,717
Class of 2007	5,124	1,241	(843)	5,522
Class of 2008		15,220	(4,973)	10,247
Commander	1,908	11,674	(6,945)	6,637
Dare	26,262	47,350	(54,467)	19,145
DE II	3,256		(3,256)	
Drug Dog	2,325	700	(2,524)	501
Elementary - Golf Outing		700		700
Equipment sale	9,032			9,032
FFA	1,098			1,098

FOWLERVILLE COMMUNITY SCHOOLS
AGENCY FUNDS
(INTERNAL FUNDS)
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
LIABILITIES BY ACTIVITY
YEAR ENDED JUNE 30, 2005

	Balance 7/1/2004	Additions	Deductions	Balance 6/30/2005
FIVA	\$ 73	\$	\$	\$ 73
Fowlerville MAFHK		638		638
Gifted and Talented	198		(198)	
Rose Hamlin Scholarship		1,000	(1,000)	
Michael Hanks Scholarship		1,000		1,000
Harmon Scholarship	500			500
High School Activity	77,267	59,788	(40,980)	96,075
High School Band	2,273	12,489	(12,050)	2,712
Interest	610	5,095	(5,705)	-
Jr. High Activity	5,049	23,794	(19,024)	9,819
Jr. High Band	64	934	(759)	239
Jr. High Choir	6,760	12,150	(13,807)	5,103
Jr. High Photo Club	363		(363)	
Jr. High Resource	4,909	5,617	(6,036)	4,490
Jr. High Science	729	1,835	(1,438)	1,126
Jr. High Student Council/Govt	1,129	1,308	(1,561)	876
Jr. High Talent Show	2,774	39	(1,970)	843
Jr. High Track Board	430	642	(219)	853
Jr. High Yearbook	4,178	4,044	(1,388)	6,834
Kovacs Donation	1,529			1,529
Kreeger Activity	11,601	11,329	(9,586)	13,344
Kreeger Book Fair	4,184	8,020	(6,033)	6,171
Kreeger Counseling	213	1,218		1,431
Kreeger Family Scholarship		40		40
Kreeger Instruction	806		(362)	444
Kreeger Principal	235		(235)	
Little Glad Center	2,325	23,845	(24,729)	1,441
Lift A Thon	1,901	13,137	(11,119)	3,919
Middle School Activity	21,990	96,621	(91,823)	26,788
Middle School Yearbook	3,572	5,484	(5,401)	3,655

FOWLERVILLE COMMUNITY SCHOOLS
AGENCY FUNDS
(INTERNAL FUNDS)
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
LIABILITIES BY ACTIVITY
YEAR ENDED JUNE 30, 2005

	Balance 7/1/2004	Additions	Deductions	Balance 6/30/2005
MS Student Government	\$ 1,266	\$ 4,596	\$ (3,092)	\$ 2,770
National Honor Society	713	6,249	(5,817)	1,145
Phibbs Scholarship		500	(500)	
Photo Account	337	1,076	(1,076)	337
Rec-Community Ed	100	23,546	(23,390)	256
Rec-Pepsi	1,124	1,151	(1,226)	1,049
Smith Elementary Activity	8,996	11,119	(10,682)	9,433
Smith -1st Grade Camp		5,922	(5,761)	161
Spanish Club	2	2,573	(1,800)	775
Student Council (HS)	272	3,385	(3,166)	491
Transfer	242	3,101	(3,101)	242
VanGorder Scholarship		6,500	(3,500)	3,000
Wrestling Club	532			532
	<u>\$ 267,030</u>	<u>\$ 487,621</u>	<u>\$ (452,147)</u>	<u>\$ 302,504</u>

FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS - 1995 DEBT
YEAR ENDED JUNE 30, 2005

Bond issue for the purpose of renovating the School District Building to help conserve energy costs.

Interest due		Principal due May 1,	Debt service requirement for fiscal year	
November 1,	May 1,		June 30,	Amount
\$ 12,980	\$ 12,980	\$ 85,000	2006	\$ 110,960
10,642	10,642	90,000	2007	111,284
8,123	8,123	90,000	2008	106,246
5,557	5,557	95,000	2009	106,114
2,803	2,803	95,000	2010	100,606
<u>\$ 40,105</u>	<u>\$ 40,105</u>	<u>\$ 455,000</u>		<u>\$ 535,210</u>

The above bonds have interest rates from 5.10% to 5.90%.

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS - 1996 DEBT
YEAR ENDED JUNE 30, 2005**

Bond issue dated November 26, 1996 for the purpose of erecting, furnishing and equipping a new middle school, renovations to the elementary and high school, and developing and improving technology, and improving outdoor athletic and physical education facilities. The maturity amount of the original issue was \$21,455,000 of which \$15,525,000 was defeased upon the issuance of 1999 refunding bonds.

Interest due		Principal due May 1,	Debt service requirement for fiscal year	
November 1,	May 1,		June 30,	Amount
\$ 38,350	\$ 38,350	\$ 555,000	2006	\$ 631,700
20,313	20,313	625,000	2007	665,626
<u>\$ 58,663</u>	<u>\$ 58,663</u>	<u>\$ 1,180,000</u>		<u>\$ 1,297,326</u>

The above bonds have interest rates from 4.65% to 6.50%.

FOWLerville COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS - 1999 DEBT
YEAR ENDED JUNE 30, 2005

Bond issue dated March 4, 1999 for the purpose of refunding a portion of the School District's outstanding school building and site bonds dated November 21, 1996 which are due and payable in the years 1997 through 2026.

Interest due		Principal due May 1,	Debt service requirement for fiscal year	
November 1,	May 1,		June 30,	Amount
\$ 375,711	\$ 375,711	\$ 90,000	2006	\$ 841,422
373,934	373,934	95,000	2007	842,868
372,010	372,010	795,000	2008	1,539,020
355,911	355,911	890,000	2009	1,601,822
337,444	337,444	910,000	2010	1,584,888
317,879	317,879	905,000	2011	1,540,758
297,969	297,969	900,000	2012	1,495,938
277,719	277,719	895,000	2013	1,450,438
257,581	257,581	885,000	2014	1,400,162
237,669	237,669	880,000	2015	1,355,338
217,869	217,869	875,000	2016	1,310,738
198,181	198,181	865,000	2017	1,261,362
178,719	178,719	860,000	2018	1,217,438
158,294	158,294	855,000	2019	1,171,588
137,988	137,988	850,000	2020	1,125,976
117,800	117,800	845,000	2021	1,080,600
97,731	97,731	835,000	2022	1,030,462
77,900	77,900	830,000	2023	985,800
58,188	58,188	825,000	2024	941,376
38,594	38,594	815,000	2025	892,188
19,238	19,238	810,000	2026	848,476
<u>\$ 4,504,329</u>	<u>\$ 4,504,329</u>	<u>\$ 16,510,000</u>		<u>\$ 25,518,658</u>

The above bonds have interest rates from 3.10% to 4.75%

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS - 2001 DEBT
YEAR ENDED JUNE 30, 2005**

Bond issue dated June 28, 2001 for the purpose of refunding a portion of the School District's outstanding school building and site bonds dated May 21, 1992 which are due and payable in the years 1993 through 2009.

Interest due		Principal due May 1,	Debt service requirement for fiscal year	
November 1,	May 1,		June 30,	Amount
\$ 40,828	\$ 40,828	\$ 525,000	2006	\$ 606,656
30,328	30,328	510,000	2007	570,656
20,128	20,128	500,000	2008	540,256
10,003	10,003	485,000	2009	505,006
<u>\$ 101,287</u>	<u>\$ 101,287</u>	<u>\$ 2,020,000</u>		<u>\$ 2,222,574</u>

The above bonds have interest rates from 4.00% to 4.13%

FOWLerville COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS - 2003 DEBT
YEAR ENDED JUNE 30, 2005

Bond issue dated March 14, 2003 for the purpose of refunding a portion of the School District's outstanding school building and site bonds dated August 29, 1991 which were refunded in 1993 which are due and payable in the years 2004 through 2020.

Interest due		Principal due May 1,	Debt service requirement for fiscal year	
November 1,	May 1,		June 30,	Amount
\$ 103,510	\$ 103,510	\$ 420,000	2006	\$ 627,020
99,310	99,310	410,000	2007	608,620
94,698	94,698	395,000	2008	584,396
89,266	89,266	385,000	2009	563,532
83,251	83,251	425,000	2010	591,502
75,813	75,813	415,000	2011	566,626
68,032	68,032	410,000	2012	546,064
59,832	59,832	400,000	2013	519,664
51,832	51,832	385,000	2014	488,664
44,132	44,132	375,000	2015	463,264
36,632	36,632	365,000	2016	438,264
29,332	29,332	355,000	2017	413,664
22,054	22,054	345,000	2018	389,108
14,939	14,939	355,000	2019	384,878
7,394	7,394	340,000	2020	354,788
<u>\$ 880,027</u>	<u>\$ 880,027</u>	<u>\$ 5,780,000</u>		<u>\$ 7,540,054</u>

The above bonds have interest rates from 2.00% to 4.35%.

FOWLerville COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
2003 SBLF REFUNDING DEBT
YEAR ENDED JUNE 30, 2005

The 2003 School Bond Loan Refunding Bond dated September 30, 2003 for the purpose of refunding a portion of the School District's School Bond Loan Fund.

Interest due		Principal due May 1,	Debt service requirement for fiscal year	
November 1,	May 1,		June 30,	Amount
\$ 227,814	\$ 227,814	\$ 1,342,000	2006	\$ 1,797,628
205,550	205,550	1,380,000	2007	1,791,100
182,656	182,656	1,426,000	2008	1,791,312
158,999	158,999	1,472,000	2009	1,789,998
134,578	134,578	1,520,000	2010	1,789,156
109,361	109,361	1,570,000	2011	1,788,722
83,315	83,315	1,621,000	2012	1,787,630
56,423	56,423	1,673,000	2013	1,785,846
28,668	28,668	1,728,000	2014	1,785,336
<u>\$ 1,187,364</u>	<u>\$ 1,187,364</u>	<u>\$ 13,732,000</u>		<u>\$ 16,106,728</u>

The above bonds have an interest rate of 3.318%.

FOWLerville COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS - 2004 DEBT
YEAR ENDED JUNE 30, 2005

Bond issue dated June 14, 2004 for the purpose of erecting, furnishing and equipping additions to and remodeling, re-equipping and refurbishing school district buildings, acquiring and installing educational technology improvements, constructing and equipping a new maintenance building, and developing and improving sites, playgrounds, and athletic fields and facilities dated August 17, 2004 which are due and payable in the years 2006 through 2034.

Interest due		Principal due May 1,	Debt service requirement for fiscal year	
May 1,	November 1,		June 30,	Amount
\$ 1,160,137	\$ 1,160,138	\$ 875,000	2006	\$ 3,195,275
1,150,294	1,150,294	925,000	2007	3,225,588
1,138,731	1,138,732	950,000	2008	3,227,463
1,124,481	1,124,482	975,000	2009	3,223,963
1,108,637	1,108,637	1,000,000	2010	3,217,274
1,088,637	1,088,637	1,050,000	2011	3,227,274
1,067,638	1,067,637	1,100,000	2012	3,235,275
1,047,563	1,047,562	1,150,000	2013	3,245,125
1,025,713	1,025,712	1,200,000	2014	3,251,425
1,002,313	1,002,312	1,275,000	2015	3,279,625
970,438	970,437	1,350,000	2016	3,290,875
935,000	935,000	1,425,000	2017	3,295,000
897,594	897,594	1,500,000	2018	3,295,188
858,219	858,219	1,575,000	2019	3,291,438
816,875	816,875	1,650,000	2020	3,283,750
775,625	775,625	1,725,000	2021	3,276,250
732,500	732,500	1,800,000	2022	3,265,000
687,500	687,500	1,875,000	2023	3,250,000
640,625	640,625	1,950,000	2024	3,231,250
591,875	591,875	2,025,000	2025	3,208,750
541,250	541,250	2,100,000	2026	3,182,500
488,750	488,750	2,175,000	2027	3,152,500
434,375	434,375	2,250,000	2028	3,118,750
378,125	378,125	2,325,000	2029	3,081,250
320,000	320,000	2,400,000	2030	3,040,000
260,000	260,000	2,475,000	2031	2,995,000
198,125	198,125	2,550,000	2032	2,946,250
134,375	134,375	2,625,000	2033	2,893,750
68,750	68,750	2,750,000	2034	2,887,500
<u>\$ 21,644,145</u>	<u>\$ 21,644,143</u>	<u>\$ 49,025,000</u>		<u>\$ 92,313,288</u>

The above bonds have interest rates from 2.25% to 5.00%

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS - 1998 DURANT
YEAR ENDED JUNE 30, 2005**

\$229,022 Durant Bond - issued on November 24, 1998

Principal due May 15,	Interest due May 15,	Debt service requirement for fiscal year	
		June 30,	Amount
\$ 11,086	\$ 4,997	2006	\$ 16,083
11,611	4,469	2007	16,080
12,166	3,916	2008	16,082
12,746	3,337	2009	16,083
13,352	2,730	2010	16,082
55,350	20,544	2011	75,894
14,653	1,429	2012	16,082
15,351	731	2013	16,082
<u>\$ 146,315</u>	<u>\$ 42,153</u>		<u>\$ 188,468</u>

This bond is not subject to redemption prior to maturity by the School District and the School District hereby covenants that it will not issue any other bonds or obligations for the purpose of refunding this bond. The interest rates payable on this bond, is 4.76%, may be adjusted in the sole discretion of the Authority provided that no interest rate shall exceed the maximum rate permitted by law and no interest rate adjustment which causes the total interest payable on this bond to increase shall be permitted.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF INSTALLMENT NOTE PAYABLE
YEAR ENDED JUNE 30, 2005**

\$238,824 installment notes payable dated April 1, 2003 for bus purchase.

Principal due April 1,	Interest due April 1,	Debt service requirement for fiscal year	
		June 30,	Amount
\$ 47,702	\$ 5,486	2006	\$ 53,188
49,465	3,723	2007	53,188
51,292	1,895	2008	53,187
<u>\$ 148,459</u>	<u>\$ 11,104</u>		<u>\$ 159,563</u>

The above notes have an interest rate of 3.6951%.

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF INSTALLMENT NOTE PAYABLE
YEAR ENDED JUNE 30, 2005**

\$184,230 installment notes payable dated July 22, 2004 for bus purchase.

Principal due April 21,	Interest due April 21,	Debt service requirement	
		June 30,	Amount
\$ 44,979	\$ 4,486	2006	\$ 49,465
46,428	3,038	2007	49,466
47,922	1,543	2008	49,465
<u>\$ 139,329</u>	<u>\$ 9,067</u>		<u>\$ 148,396</u>

The above notes have an interest rate of 3.22%

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF BORROWINGS - STATE OF MICHIGAN
SCHOOL BOND LOAN FUND
YEAR ENDED JUNE 30, 2005**

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Bond Loan Program. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from the State under this program have been summarized as follows:

<u>Year ended June 30,</u>	<u>Loan proceeds</u>	<u>Interest expense</u>	<u>Loan balance (net change)</u>
1996	\$ 1,561,544	\$ 164,664	\$ 1,726,208
1997	1,316,776	111,431	1,428,207
1998	2,225,414	209,835	2,435,249
1999	930,028	318,987	1,249,015
2000	1,692,500	385,914	2,078,414
2001	1,679,527	475,004	2,154,531
2002	1,426,547	488,901	1,915,448
2003	1,009,418	455,201	1,464,619
2004 refinance payment	(11,806,245)	(2,274,395)	(14,080,640)
2004	1,453,524	123,819	1,577,343
2005	2,650,529	81,300	2,731,829
Totals June 30, 2005	<u>\$ 4,139,562</u>	<u>\$ 540,661</u>	<u>\$ 4,680,223</u>

FOWLERVILLE COMMUNITY SCHOOLS

**ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133**

YEAR ENDED JUNE 30, 2005

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Jeffrey C. Stevens
Linda I. Schirmer
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Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education
Fowlerville Community Schools
Fowlerville, Michigan

July 25, 2005

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fowlerville Community Schools as of and for the year ended June 30, 2005, which collectively comprise Fowlerville Community Schools' basic financial statements and have issued our report thereon dated July 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fowlerville Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fowlerville Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Education
Fowlerville Community Schools

July 25, 2005

We noted other matters involving the internal control over financial reporting that we have reported to management of Fowlerville Community Schools in a separate letter dated July 25, 2005.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mamay, Costenusan & Ellis, P.C.

Certified Public Accountants



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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
Fowlerville Community Schools
Fowlerville, Michigan

July 25, 2005

Compliance

We have audited the compliance of Fowlerville Community Schools with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Fowlerville Community Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Fowlerville Community Schools' management. Our responsibility is to express an opinion on Fowlerville Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fowlerville Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Fowlerville Community Schools' compliance with those requirements.

In our opinion, Fowlerville Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

July 25, 2005

Internal Control Over Compliance

The management of Fowlerville Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Fowlerville Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Fowlerville Community Schools as of and for the year ended June 30, 2005, and have issued our report thereon dated July 25, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Fowlerville Community Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mama, Costin & Ellis, P.C.

Certified Public Accountants

FOWLerville COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2004	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2005
<u>U.S. Department of Agriculture:</u>								
Passed through Michigan Department of Education:								
Child nutrition cluster:								
National School Lunch Program - Section 4	10.555	041950	\$ 5,986	\$	\$ 40,949	\$ 5,986	\$ 5,986	
National School Lunch Program - Section 4		051950	42,544			42,544	42,544	
National School Lunch Program - Section 11		041960	17,925		17,743	17,925	17,925	
National School Lunch Program - Section 11		051960	122,114		111,115	122,114	122,114	
			<u>188,569</u>		<u>169,807</u>	<u>188,569</u>	<u>188,569</u>	
National School Lunch Program - Breakfast	10.553	041970	3,251		28,811	3,251	3,251	
National School Lunch Program - Breakfast		051970	29,643			29,643	29,643	
			<u>32,894</u>		<u>28,811</u>	<u>32,894</u>	<u>32,894</u>	
Total child nutrition cluster			<u>221,463</u>		<u>198,618</u>	<u>221,463</u>	<u>221,463</u>	
National School Lunch Program - Commodities:								
Entitlement	10.550		39,026			30,742	30,742	
Bonus			16,831			16,831	16,831	
			<u>55,857</u>		<u>-</u>	<u>47,573</u>	<u>47,573</u>	
Total U.S. Department of Agriculture			<u>277,320</u>		<u>198,618</u>	<u>269,036</u>	<u>269,036</u>	
<u>U.S. Department of Education:</u>								
Passed through Michigan Department of Education:								
Title 1	84.010	031530-0304	2,539	447	2,539	447		
		041530-0304	219,617	62,788	209,067	73,338	10,550	
		041530-0405	25,953			15,940	25,953	10,013
		051530-0405	222,104			150,256	199,961	49,705
			<u>470,213</u>	<u>63,235</u>	<u>211,606</u>	<u>239,981</u>	<u>236,464</u>	<u>59,718</u>
Title V LEA Allocation	84.298	030250-0304	1,923	1,080	1,923	1,080		
		040250-0304	1,095	151	151	1,095	944	
		040250-0405	1,451			377	1,451	1,074
		050250-0405	1,917			200	290	90
			<u>6,386</u>	<u>1,231</u>	<u>2,074</u>	<u>2,752</u>	<u>2,685</u>	<u>1,164</u>

The accompanying notes are an integral part of this schedule.

FOWLerville COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2004	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2005
<u>U.S. Department of Education (Continued):</u>								
Passed through Michigan Department of Education (continued):								
Technology literacy challenge grants	84.318	044290-0304	\$ 1,913	\$ 1,568	\$ 1,913	\$ 1,568	\$	\$
		044290-0405	4,058			3,498	4,058	560
		054290-0405	5,645			4,300	4,300	
			<u>11,616</u>	<u>1,568</u>	<u>1,913</u>	<u>9,366</u>	<u>8,358</u>	<u>560</u>
Passed through Michigan Department of Education:								
Improving teacher quality	84.367	040520-0304	88,776	31,918	85,720	34,974	3,056	
		040520-0405	14,974			9,507	14,974	5,467
		050520-0405	101,607			48,741	72,070	23,329
			<u>205,357</u>	<u>31,918</u>	<u>85,720</u>	<u>93,222</u>	<u>90,100</u>	<u>28,796</u>
Passed through the Livingston Educational Service Agency								
IDEA (Special Ed)	84.027A	040450	100,000	66,700	100,000	66,700		
		050450	100,000			49,500	100,000	50,500
			<u>200,000</u>	<u>66,700</u>	<u>100,000</u>	<u>116,200</u>	<u>100,000</u>	<u>50,500</u>
Capacity Building Grant (Special Ed)	84.027A	40490	8,058	1,012	5,689	1,012		
		50490	6,764			5,489	5,686	197
			<u>14,822</u>	<u>1,012</u>	<u>5,689</u>	<u>6,501</u>	<u>5,686</u>	<u>197</u>
Transition Grant (Special Ed)	84.027A	040490-ts	6,000	2,171	5,486	2,171		
		050490-ts	6,000				4,941	4,941
			<u>12,000</u>	<u>2,171</u>	<u>5,486</u>	<u>2,171</u>	<u>4,941</u>	<u>4,941</u>
Total Special Education Cluster			<u>226,822</u>	<u>69,883</u>	<u>111,175</u>	<u>124,872</u>	<u>110,627</u>	<u>55,638</u>

The accompanying notes are an integral part of this schedule.

FOWLerville COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2004	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2005
<u>U.S. Department of Education (Concluded):</u>								
Passed through the Livingston Educational Service Agency								
Safe and Drug Free Schools	84.186	42860	\$ 12,016	\$ 1,916	\$ 9,362	\$ 1,916	\$	\$
		42860	11,164	2,678	2,678	11,164	8,486	
		52860	11,513			9,502	11,513	2,011
			<u>34,693</u>	<u>4,594</u>	<u>12,040</u>	<u>22,582</u>	<u>19,999</u>	<u>2,011</u>
Vocational Education - Basic Grant to State	84.048	43520	15,420	3,663	14,630	3,663		
		53520	17,772			9,771	16,461	6,690
			<u>33,192</u>	<u>3,663</u>	<u>14,630</u>	<u>13,434</u>	<u>16,461</u>	<u>6,690</u>
Tech-Prep Education	84.243	43540	5,200	250	4,910	250		
		53540	5,290			5,290	5,290	
			<u>10,490</u>	<u>250</u>	<u>4,910</u>	<u>5,540</u>	<u>5,290</u>	
Adult Education and Family Literacy Act 2003-2004	84.002A		8,980	8,598	8,598	8,980	382	
Adult Education and Family Literacy Act 2004-2005			7,158			2,753	7,158	4,405
			<u>16,138</u>	<u>8,598</u>	<u>8,598</u>	<u>11,733</u>	<u>7,540</u>	<u>4,405</u>
Total U.S. Department of Education			<u>1,014,907</u>	<u>184,940</u>	<u>452,666</u>	<u>523,482</u>	<u>497,524</u>	<u>158,982</u>
<u>U.S. Department of Health and Human Services:</u>								
Passed through Michigan Department of Community Health:								
Preventive Health and Health Services Block Grant	93.991		2,000	(705)	532		705	
<u>U.S. Department of Homeland Security:</u>								
Passed through Michigan Department of State Police:								
2003 State Homeland Grant Program Part II	97.004		11,000	500	500	2,373	1,873	
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,305,227</u>	<u>\$ 184,735</u>	<u>\$ 652,316</u>	<u>\$ 794,891</u>	<u>\$ 769,138</u>	<u>\$ 158,982</u>

The accompanying notes are an integral part of this schedule.

FOWLerville COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of Fowlerville Community Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. CFDA (#10.553 and #10.555) were audited as the major programs, representing 29% of expenditures. The District qualifies for low risk auditee status.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Management has utilized the Grant Section Auditors' Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
5. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	\$ 499,396
Other nonmajor governmental fund	<u>269,742</u>
Subtotal	<u><u>\$ 769,138</u></u>

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified		
Material weakness(es) identified:	<u> </u> Yes	<u> X </u> No	
Reportable condition(s) identified that are not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None reported	
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified:	<u> </u> Yes	<u> X </u> No	
Reportable condition(s) identified that are not considered to be material weakness(es)?	<u> </u> Yes	<u> X </u> None reported	
Type of auditors' report issued on compliance for major programs:	Unqualified		
Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133?	<u> </u> Yes	<u> X </u> No	

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.555 and 10.553	Child Nutrition Cluster

Dollar threshold used to distinguish between type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?	<u> X </u> Yes	<u> </u> No
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Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2005**

There were no prior year audit findings for the year ended June 30, 2004.



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Racek
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

July 29, 2005

To the Board of Education
Fowlerville Community Schools
Fowlerville, Michigan

In planning and performing our audit of the financial statements of Fowlerville Community Schools for the year ended June 30, 2005, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated July 25, 2005, on the financial statements of Fowlerville Community Schools.

New Rules For §403(B) Plans

Proposed regulations were issued last year that require a written plan document for §403(b) plans. The plan must contain all the material terms and conditions for eligibility, benefits, contribution limitations, the annuity contracts or accounts available or used under the plan for funding, and the time and form under which benefit payments will be made. There is no requirement that a single document must be used. This rule applies for tax years beginning after 2005. We would recommend that you contact your attorney before the end of 2005 to assure you comply.

To the Board of Education
Fowlerville Community Schools
Fowlerville, Michigan

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July 29, 2005

We will review the status of this comment during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Fowlerville Community Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Mary Costenaro, E. Ellis, P.C.



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July 29, 2005

To the Fowlerville Finance Committee
Fowlerville Community Schools
Fowlerville, Michigan

We have audited the financial statements of Fowlerville Community Schools for the year ended June 30, 2005, and have issued our report thereon dated July 25, 2005. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated July 2, 2004 our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Fowlerville Community School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Fowlerville Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Fowlerville Community Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major programs for the purpose of expressing an opinion on Fowlerville Community Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Fowlerville Community Schools' compliance with those requirements.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Fowlerville Community Schools are described in Note 1 to the financial statements. During 2005, the District adopted the new governmental investment disclosure as required by Governmental Accounting Standard Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*. We noted no transactions entered into by Fowlerville Community Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of the liability of the payout for the employee compensated absences upon their retirement is based on expected payout; the balance reported was approximately \$1,308,000. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements as a whole.

Certain amounts included in capital assets have estimated based on an outside appraisal company. Certain allocations on the statement of activities allocating grants between instruction and support services have been used in preparing the statements.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Fowlerville Community Schools' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Fowlerville Community Schools, either individually or in the aggregate, indicate matters that could have a significant effect on the Fowlerville Community Schools' financial reporting process.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Fowlerville Community Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Finance Committee, the Board of Education, management, and federal awarding agencies and pass through entities of Fowlerville Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Mama, Costenaro & Ellis, P.C.